ANNUAL REPORT

CONTAINER CORPORATION OF AMERICA

CHICAGO, ILLINOIS

1936

FISCAL YEAR ENDED DECEMBER THIRTY-FIRST

MARCH 25, 1937

CONTAINER CORPORATION OF AMERICA

MILLS	Carthage, Indiana Chicago, Illinois Cincinnati, Ohio Circleville, Ohio Kokomo, Indiana Marion, Indiana Philadelphia, Pennsylvania Wabash, Indiana (leased)
FACTORIES	Anderson, Indiana Chicago, Illinois Cincinnati, Ohio Natick, Massachusetts Philadelphia, Pennsylvania
BRANCH AND SALES OFFICES	Anderson, Indiana Chicago, Illinois Cincinnati, Ohio Indianapolis, Indiana Minneapolis, Minnesota Louisville, Kentucky Cleveland, Ohio Natick, Massachusetts New York, New York Pittsburgh, Pennsylvania Philadelphia, Pennsylvania Wabash, Indiana Rochester, New York Baltimore, Maryland Detroit, Michigan
OPERATING SUBSIDIARIES	Chicago Mill Paper Stock Company Pioneer Paper Stock Company Plants (all leased) located at Chicago, Illinois; Kalamazoo, Michigan; Philadelphia, Pennsylvania Kraft Corporation of America Fernandina, Florida
INACTIVE SUBSIDIARIES	Dixon Board Mills, Inc. Mid-West Box Company Sefton Container Corporation
AFFILIATED COMPANY	Sefton Fibre Can Company, St. Louis, Mo.

111 WEST WASHINGTON STREET, CHICAGO

DIRECTORS

Sewell L. Avery, Chicago, Illinois
William R. Basset, New York, New York
J. J. Brossard, Chicago, Illinois
Henry B. Clark, Chicago, Illinois
Wesley M. Dixon, Chicago, Illinois
George deB. Greene, New York, New York
William P. Jeffery, New York, New York
Walter P. Paepcke, Chicago, Illinois
Earl A. Wagonseller, Chicago, Illinois

EXECUTIVE COMMITTEE

Sewell L. Avery
William R. Basset
William P. Jeffery
Walter P. Paepcke

OFFICERS

President, Walter P. Paepcke
Vice President, J. J. Brossard
Vice President, Wesley M. Dixon
Treasurer—Comptroller, H. C. Baumgartner
Secretary, Earl A. Wagonseller
Assistant Treasurer, Hugh K. Crawford
Assistant Secretary, Christ Madsen
Assistant Secretary, L. A. Combs

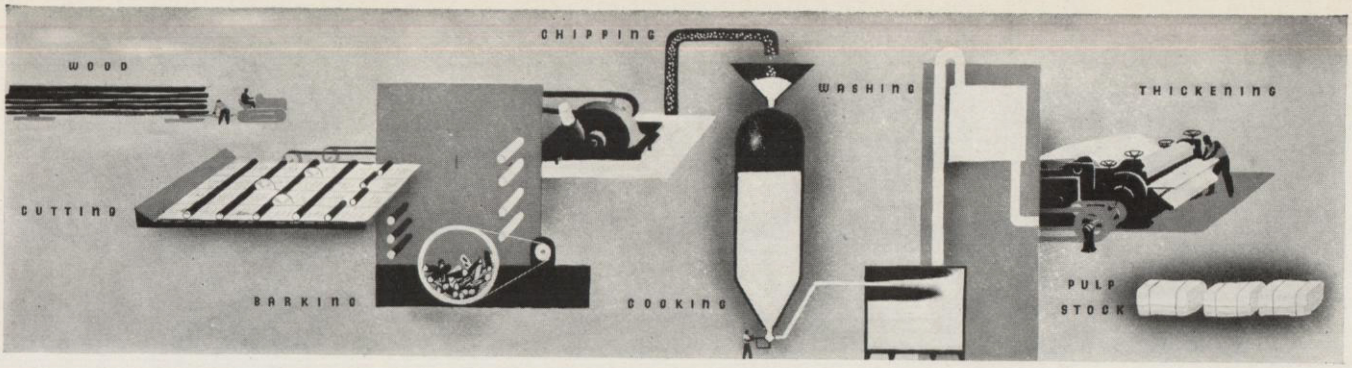
TRANSFER AGENTS

Container Corporation of America, Chicago, Illinois
City Bank Farmers Trust Company, New York, New York

REGISTRARS

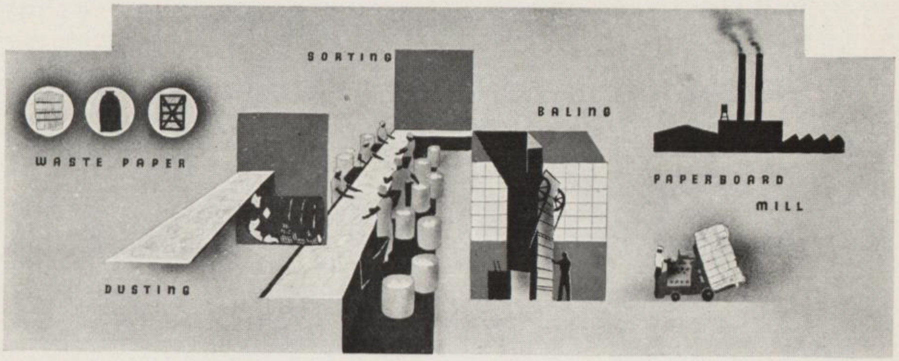
Continental Illinois National Bank and Trust Company, Chicago, Illinois
The Chase National Bank of the City of New York, New York

ANNUAL REPORT

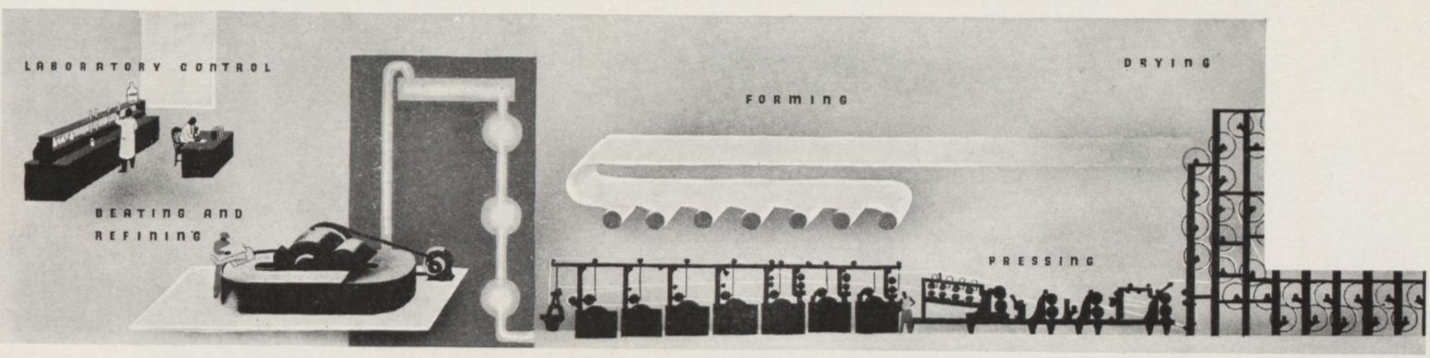


MAKING PAPERBOARD

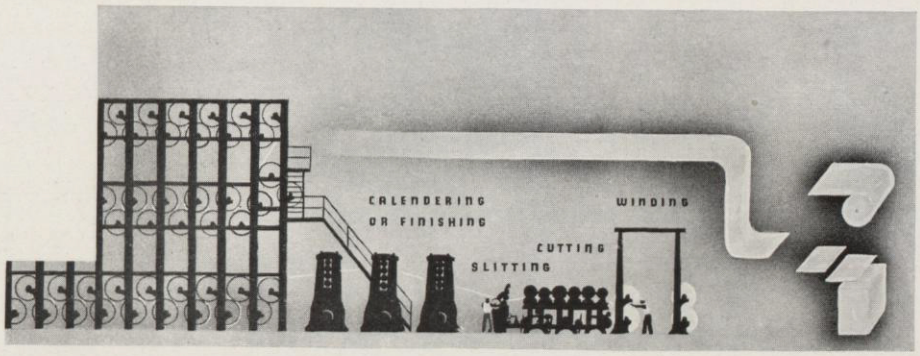
Above: The process of reducing wood to pulp for paper making. Showing in order, cutting, barking, chipping, cooking, washing and thickening.



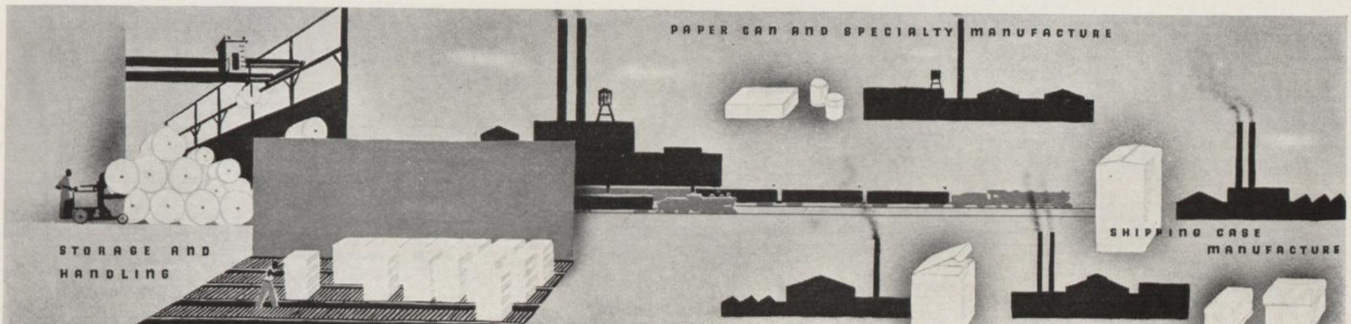
Right: Waste paper, a paperboard ingredient, in bales, bags and crates; its dusting, sorting, baling and its destination, the paperboard mill.



Above and right: The manufacture of paperboard begins with laboratory control and continues with beating and refining, forming, pressing, drying, calendering, slitting, cutting and winding.



Below: The finished product, its storage, as roll stock, its handling as flat stock, its distribution to fabricators of paper cans and specialties, folding cartons, shipping cases and set-up boxes.



CONTAINER CORPORATION OF AMERICA

CHICAGO, ILLINOIS, MARCH 25, 1937

TO THE STOCKHOLDERS OF CONTAINER CORPORATION OF AMERICA

We submit herewith the Annual Report of Container Corporation of America for the year ended December 31, 1936, including the Auditors' Certificate, a Consolidated Balance Sheet, a Summary of Consolidated Profit and Loss and Surplus Accounts and a tabulation of Funded Debt. Various tabular comparisons and statements are included for the benefit of those who wish to make a more detailed study of the Corporation's financial position, earning results and progress during the past year. We are furthermore commenting on these statements and are adding some remarks regarding your Corporation's operations and the paperboard and container industries.

FINANCIAL REVIEW

PROFIT AND LOSS. The consolidated net profit for 1936 was $1,286,942; consolidated net profit in 1935 was $1,238,009. In each case, earnings are net after interest, reserves, provision for depreciation and all taxes including Federal income tax and surtax on undistributed profits. Losses on such fixed assets as were replaced or became obsolete during the year were charged off against Profit and Loss in the amount of $86,701.

The provision for depreciation charged against earnings in 1936 was substantial, namely $1,172,734; this represents the gross increase in depreciation reserve; from this gross amount was deducted $194,551 of depreciation previously reserved against assets retired during the year; therefore, the net addition to depreciation reserve of $978,183 represents the difference between these two amounts.

Per share earnings on 653,540 shares of outstanding capital stock were $1.97. The following is a tabulation of quarterly per share earnings:

1st Quarter	$ .28
2nd Quarter	.46
3rd Quarter	.62
4th Quarter (including year end adjustments)	.61
Full Year	$1.97

A comparative summary of operating results for the last three years follows:

	Year Ended December 31st		
	1934	1935	1936
Consolidated net sales (including brokerage sales of subsidiary)	$18,316,508	$20,181,777	$22,525,268
Cost of sales (exclusive of depreciation)	14,136,407	15,356,939	17,466,001
Gross profit (exclusive of depreciation)	$ 4,180,101	$ 4,824,838	$ 5,059,267
Selling, administrative and general expenses (exclusive of depreciation and provision for bad debts)	1,375,624	1,575,614	1,791,599
Net profit from operations (exclusive of depreciation and provision for bad debts)	$ 2,804,477	$ 3,249,224	$ 3,267,668
Other charges:			
Rental expense, etc	$ 81,275	$ 122,818	$ 114,922
Loss on capital assets retired	51,712	107,512	86,701
Provision for bad debts, less recoveries	74,434	35,153	9,742
	$ 207,421	$ 265,483	$ 211,365
	$ 2,597,056	$ 2,983,741	$ 3,056,303
Other income:			
Interest and discounts earned, etc	$ 107,638	$ 92,704	$ 92,719
Rental income	29,236	29,170	29,592
Adjustments of prior years property taxes	49,269	—	—
	$ 186,143	$ 121,874	$ 122,311
Net profit before depreciation, interest and Federal taxes	$ 2,783,199	$ 3,105,615	$ 3,178,614
Interest charges, etc:			
Interest on first mortgage bonds	$ 214,502	$ 208,426	$ 194,958
Interest on debentures	215,939	213,482	211,772
Other interest, etc	15,124	32,596	14,439
Provisions for Federal income taxes and surtaxes	195,000	217,500	255,000
	$ 640,565	$ 672,004	$ 676,169
Net profit before depreciation and amortization	$ 2,142,634	$ 2,433,611	$ 2,502,445
Depreciation and amortization:			
Provision for depreciation	$ 984,162	$ 1,152,590	$ 1,172,734
Amortization of bond discount	45,761	43,012	42,769
	$ 1,029,923	$ 1,195,602	$ 1,215,503
Net profit carried to surplus	$ 1,112,711	$ 1,238,009	$ 1,286,942

Inquiries are often made as to what proportion of our total costs is represented respectively by raw materials, labor, administrative expense, interest charges, etc. The following table will give you a concise answer to this pertinent question:

Net sales	$22,525,268	
Less: Net profit	1,286,942	
Total cost	$21,238,326	100.00%
Raw materials	$ 8,893,589	41.88%
Labor	3,811,608	17.95
Factory supplies and expense	4,760,804	22.41
Selling, administrative and general expense	1,791,599	8.44
Miscellaneous deductions	89,054	.42
Interest charges	421,169	1.98
Provision for depreciation	1,172,734	5.52
Amortization of bond discount and expense	42,769	.20
Provision for Federal income taxes and surtaxes	255,000	1.20

The paperboard tonnage produced by the mills of your Company during the last five year period shows an interesting upward trend and is herewith tabulated along with the tonnage of finished product shipped which includes tons of paperboard, either sold as such or fabricated into containers but in both cases shipped to customers.

	Tons Produced in Mills	Tons Finished Product Shipped
1932	252,464	281,423
1933	299,346	320,961
1934	300,424	312,830
1935	373,399	382,381
1936	428,627	441,086

Your attention is called to the fact that while the tons produced in your paper mills have a major influence upon the monthly tons of finished product shipped, the two tonnage figures are never identical for the reason that your Company also purchases tons of paper produced by others, either of a specialty nature not manufactured by your Corporation or in times of great seasonal activity the paperboard mills of the Company have not always sufficient capacity to supply all the paperboard required to fill the demands of customers.

INTERNATIONAL PACKAGE EXHIBITION, NEW YORK

Permanent International Package Exhibition and reception room in the New York office. The mural decorations, which are reproduced on page 6 of this report, show in diagrammatic manner the sources of raw material, the processes of manufacture and the eventual destination of the Company's products.

This unusual collection, consisting of many hundred packages and shipping cases, offers visitors the opportunity to compare the paperboard and printing of foreign mills and converters with that of American manufacturers. The newest packaging ideas throughout the world are here available to buyers of containers.

WORKING CAPITAL. The following table sets out Working Capital comparisons as of December 31, 1935 and December 31, 1936:

	1935	1936	Increase or Decrease (d)
CURRENT ASSETS:			
Cash on hand and in banks	$1,131,576	$1,147,361	$ 15,785
Customer's notes and accounts receivable, less reserves	1,140,293	1,614,733	474,440
Miscellaneous receivables	15,287	10,898	4,389(d)
Inventories	2,896,060	2,900,739	4,679
Total Current Assets	$5,183,216	$5,673,731	$ 490,515
CURRENT LIABILITIES:			
Accounts payable	$ 758,558	$1,092,693	$ 334,135
Contracts payable for construction in progress	—	212,310	212,310
Accrued interest	33,218	24,669	8,549(d)
Accrued wages	62,326	57,007	5,319(d)
Reserve for taxes	207,287	301,959	94,672
Reserve for Federal taxes	217,500	255,000	37,500
Sundry reserves	26,235	32,000	5,765
Sinking fund requirements—Container Corporation of America 6% First Mortgage Bonds	250,000	154,000	96,000(d)
Total Current Liabilities	$1,555,124	$2,129,638	$ 574,514
Net Working Capital	$3,628,092	$3,544,093	$ 83,999(d)
Current Ratio	3.33 to 1	2.66 to 1	

Cash was increased by $15,785. Receivables show a substantial increase due to larger volume of business done and because of generally higher unit prices than at the close of the preceding year. While dollars invested in inventories remain practically unchanged, it might be stated that actual inventory units were low but that dollar value per unit was somewhat larger because of higher market levels obtaining in practically all raw materials and operating supplies. Similarly, accounts payable were higher because of greater business activity and higher price levels. At the end of the year, a certain amount of machinery, equipment and building construction had been contracted for, installation of which will be completed during the early months of 1937 and payment for which will become due approximately simultaneously with completion. These commitments which amounted to $212,310, set out separately above, have been included in accounts payable on the audited balance sheet. Accrued interest is in connection with outstanding bonds and debentures and is gradually becoming less semi-annually as principal amount of outstanding obligations, is reduced. Reserve for taxes represents liabilities set up for unemployment insurance, real and personal property, state income and franchise taxes. Reserve for Federal taxes includes provision for Federal income tax and surtax on undistributed earnings. Liability for sinking fund requirements represents total annual sinking fund requirements of $250,000 for first mortgage bonds less $96,000 par value bonds already in the treasury of the Company or a net of $154,000.

Capital improvements for 1936 aggregated $811,684, plus building construction, machinery and equipment contracted for of $212,310 or a total of $1,023,994. Funded debt was reduced by $755,860. The remaining Dixon Board Mill bonds of $118,500 outstanding as of the first of the year and serially due over a period of years up to 1942

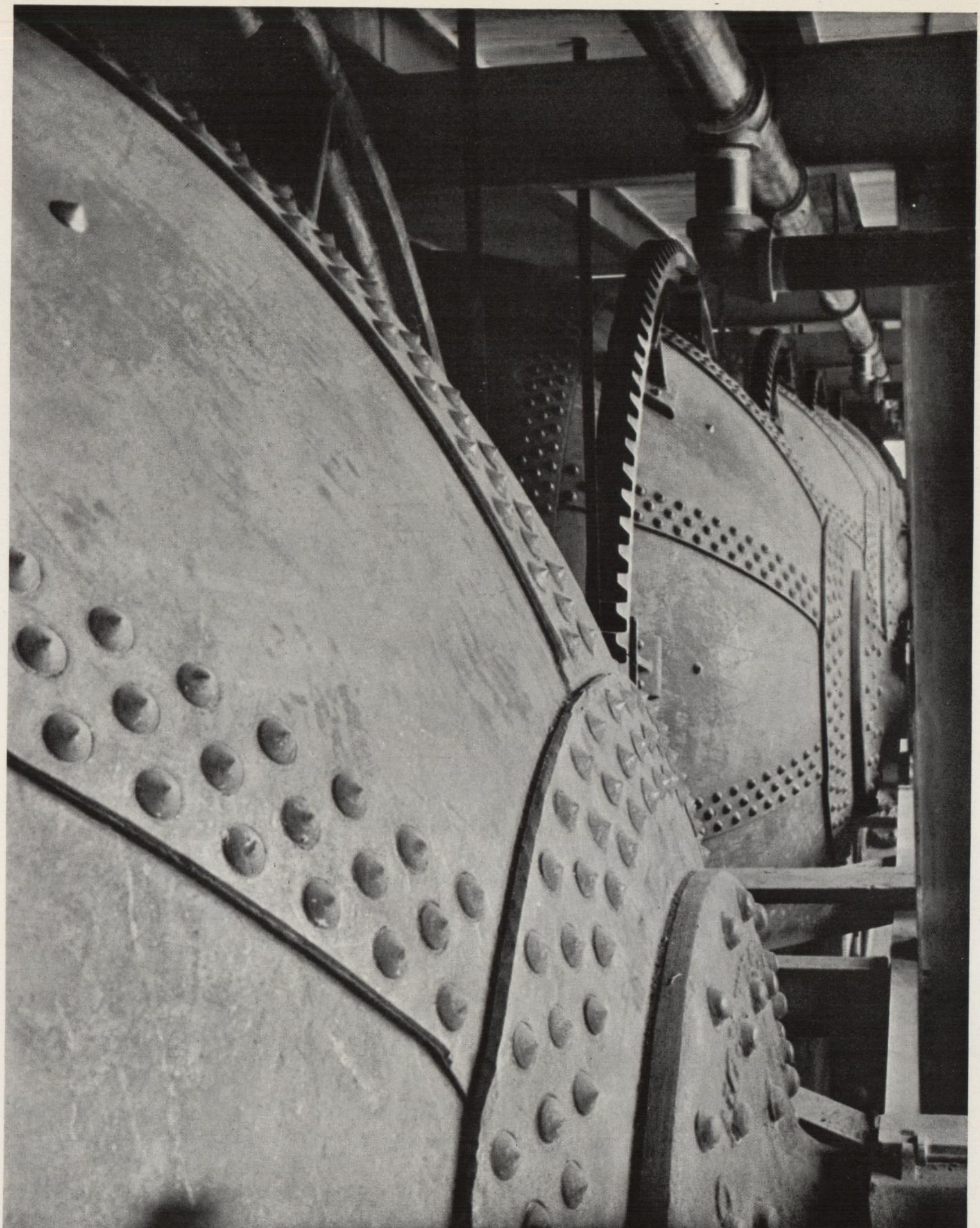
Battery of two-color presses at the 35th Street plant in Chicago, devoted to the printing of folding cartons.

were all called for prepayment; also purchase money obligations of $232,860 due over a period of years up to 1939 were prepaid in total. Cash disbursed for dividend payments amounted to $816,925 or $1.25 a share on the outstanding capital stock. There was a net reduction in working capital of $83,999. The following is an application of funds statement which indicates the source of funds and their disposition.

Funds provided from the following sources:		
Profit for year	$1,286,942	
Add expense items not involving cash—		
Provision for depreciation	1,172,734	
Loss on property retired	86,701	
Amortization of bond discount and expense	42,769	$2,589,146
Net decrease in working capital		83,999
Excess provision for 1935 Federal income taxes added to reserve for contingencies		16,500
Sale of property		14,096
		$2,703,741
Which were expended or accounted for as follows:		
Net increase in other receivables and investments		$ 59,191
Net increase in deferred charges other than bond discount and expense		47,771
Company's own bonds, debentures and purchase money obligations purchased and called	$ 851,860	
Deduct decrease in current maturities	96,000	755,860
Dividends paid		816,925
Additions to plant and equipment		1,023,994
		$2,703,741

FUNDED OBLIGATIONS. Total funded debt was reduced by $755,860; this includes reductions in outstanding first mortgage bonds, debentures, prepayment of all Dixon Board Mills, Inc. first mortgage bonds and prepayment of all purchase money obligations. As of December 31, 1936, the Corporation had $96,000 first mortgage bonds in its treasury; its sinking fund requirements for the year amount to $250,000 so that the difference of $154,000 of par value of bonds appears as a current liability. Sufficient debentures are in the treasury for all of this year's sinking fund of $200,000. All interest payments were made when due and sinking fund requirements were met in accordance with provisions of the trust indentures. The following statement indicates a comparison of funded debt position with a year ago.

	Dec. 31, 1935	Dec. 31, 1936	Increase or Decrease (d)
First Mortgage Sinking Fund 6% Bonds due June 15, 1946	$3,367,500	$3,034,500	$ 333,000(d)
Fifteen Year 5% Debentures due June 1, 1943	4,267,500	4,100,000	167,500(d)
Dixon Board Mills, Inc. First Mortgage 6% Bonds (due serially to 1942)	118,500	—	118,500(d)
Purchase Money Obligations	232,860	—	232,860(d)
Total outstanding	$7,986,360	$7,134,500	$ 851,860(d)
Less sinking fund requirements in excess of bonds in treasury:			
First Mortgage Sinking Fund 6% Bonds due June 15, 1946	$ 250,000	$ 154,000	$ 96,000(d)
Total funded debt	$7,736,360	$6,980,500	$ 755,860(d)



One of the two rows of new rotary digesters installed at the Circleville straw mill in 1937.

CAPITALIZATION. There was no change in outstanding capital stock during the twelve months ending December 31, 1936. There are outstanding 653,540 shares of capital stock at a par value of $20.00 per share out of a total authorized capital of 1,000,000 shares.

ADJUSTMENTS TO SURPLUS. There were no extraordinary year-end surplus adjustments. The net profit of $1,286,942 was added to surplus and $816,925 representing dividends paid was charged against the surplus account. Two regular quarterly dividends of 25c per share each were paid in August and November; an extra dividend of 75c per share was also paid in November.

PAPERBOARD AND CONTAINER INDUSTRY CONDITIONS

During the greater part of 1936 and thus far in 1937, the Paperboard Industry has been operating at full capacity and the Container Industry at a rate limited by the capacity of the mills manufacturing container board. As is normally the case in times of great paper mill activity, several new paperboard producing units are under construction and a few older mills are being rehabilitated and put back into operation. While the Paperboard Industry in the last two or three decades has been fortunate in enjoying a continually growing demand, there is the possibility of expanding production facilities beyond the rate of increase of demand. It seems unlikely that in the near future additional capacity will have time to catch up with demand but thereafter, should either new capacity be overbuilt or should there be a falling-off in demand due to general business conditions, an oversupplied market with its attendant evils of increased severity of competition could result.

OPERATIONS

During the year, an amount of $1,023,994 was spent for capital improvements; as in previous years, these improvements were limited to betterments for reducing operating costs and further improving quality of product and not for expansion of capacity. The more important capital expenditures were the following:

Circleville, Ohio—A new rotary building with new rotaries for the preparation of straw stock was partially completed during 1936; completion of this replacement will occur during the first half of 1937.

Cincinnati, Ohio—One of the paperboard machines was rebuilt with results of lower operating costs and improvement in quality and an incidental small increase in capacity.

Philadelphia, Pa.—Improvements in the machinery and equipment necessary for stock preparation were made, and a new folding carton department was established completely equipped with all the necessary machinery. This division will permit your Corporation to supply more efficiently the growing demand of its eastern folding carton customers.

In practically all of the box factories, new installations of the most modern type of box machinery were made to replace older and less efficient equipment.

Additional trucks, tractors and trailers were added in both Philadelphia and Chicago for the transportation of raw material into and finished product out of the plants.

PIONEER PAPER STOCK COMPANY, PHILADELPHIA

The new 30,000 square foot garage built in 1936 for Pioneer Paper Stock Company in Philadelphia to accommodate the fleet of more than ninety trailers and tractors that haul the Company's raw material and products.

The garage is in the rear of the main building leased in 1935 for the grading, packing and warehousing operations of this branch.

The substantial sum of $1,042,194 was spent for maintenance and repair of buildings, machinery and equipment; all of this was charged against Profit and Loss.

The management invites and would welcome an inspection of any or all of its plants by any of the stockholders. We believe that the operating division has reached a new high mark in the matter of operating efficiency and orderly maintenance of the various operating units of the Corporation.

A little less than five thousand men and women were employed during the year in the factories and administrative departments. The total labor payroll for the year amounted to $3,811,608. Because of the increased cost of living, it was found necessary to make wage increases in various departments throughout the year.

Your Corporation was fortunate in being able to continue a very satisfactory safety record throughout the year. Lost time accidents were held to a minimum by careful and continuous factory inspections and the addition of more safety devices.

The research and testing laboratories of the Corporation were kept very busy during the year both in the development and design of new products, as well as in the improvement of quality and cost of manufacture of regular products.

FERNANDINA, FLORIDA, MILL

On pages 18 and 19 are shown an aerial view of the new plant site and the immediately surrounding territory and also a typical pine timbered area near Fernandina.

According to two recent U. S. Government Forestry Surveys, two areas, both within 150 miles of Fernandina, one in Southeastern Georgia and one in Northern Florida, consisting of almost twenty million acres have a stand of 33,547,000 cords of pine wood. The Forestry Department Survey furthermore indicates that a poor annual forest growth in these areas would result in an annual increase of 3,796,000 cords; and that a good growth could account for an annual increase of 11,488,200 cords. The initial consumption of your Company's new mill will be approximately 60,000 cords per annum. At present, there are four other mills—two completed and two under construction—in this general area; these mills may also draw upon this timber supply for part of their raw material requirements. However, with the extremely large amount of cords now available together with the very large growth above mentioned, raw material should be obtainable at reasonable prices for a very long time to come.

The new mill will be situated on tidewater so that its product can be transported by either rail or water to the three major pulp consuming operations of your Company, namely, Philadelphia, Cincinnati and Chicago. Water transportation to Philadelphia would be coastwise; to Cincinnati, via the Gulf, Mississippi and Ohio Rivers; and to Chicago, up the Atlantic Coast and inland through the St. Lawrence River and Great Lakes.

The initial productive capacity of the Fernandina Mill will be approximately 40,000 tons of kraft sulphate pulp. In 1936 your Corporation consumed 32,031 tons of this type of pulp largely imported from Scandinavian countries. However, the mill is being laid out so that a second and third unit of equal or greater capacity can be added economically and quickly, including a Fourdrinier machine for converting the additional pulp into paperboard and/or wrapping and bag paper.

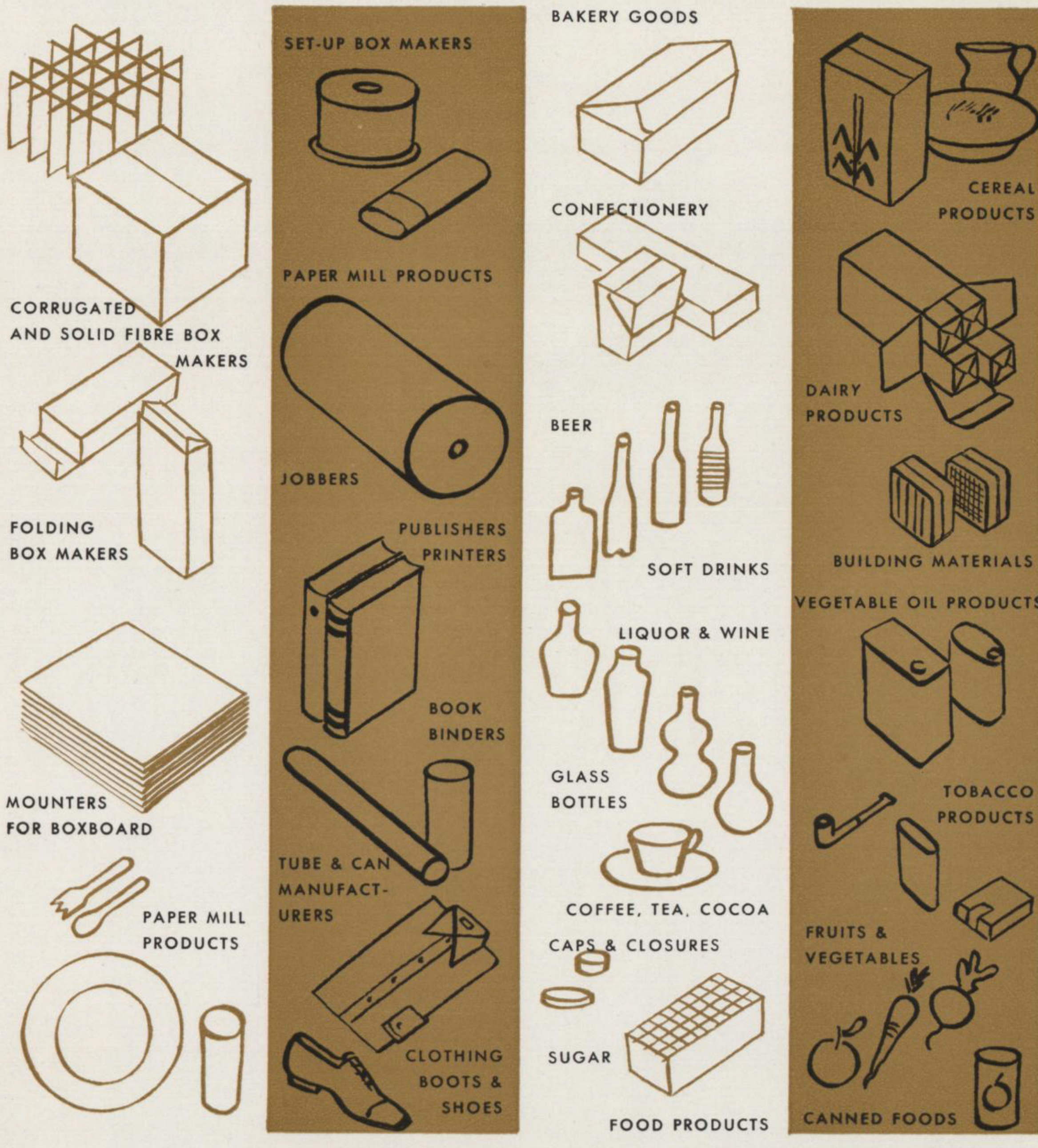
As the paper industry in the South may be overbuilt, it seemed desirable to begin with only the first unit, the output of which completely protects your Company's sulphate pulp requirements at an estimated saving of more than $20.00 per ton considering the present market price. This pulp capacity should be almost completely absorbed by your Company's northern pulp-using paper mills without affecting paperboard and container markets. Aside from the important cost saving, your Company in this step also protects itself against possible tariff on pulp or interference of delivery of pulp from Europe in case of any possible European war.

The cost of the first unit will be approximately $2,500,000. This can be financed out of prospectively available cash supplemented by some short term bank loans and will, therefore, not require any major financing program. The second and third units can be added as conditions seem to indicate and in this way avoid any over-great disturbance to the Industry's market conditions and without straining the Corporation's credit.

Orders for equipment were placed at the beginning of the year and ground was broken on the 16th day of February. Unless unforeseen delays in construction or delivery of equipment occur, the mill should be ready for operation before the end of the year.

Above: A typical growth of Georgia and Florida pine suitable for pulp wood.

Opposite: Airplane view of the Fernandina region, showing the ocean above and the Amelia River below. The company site is outlined in black.

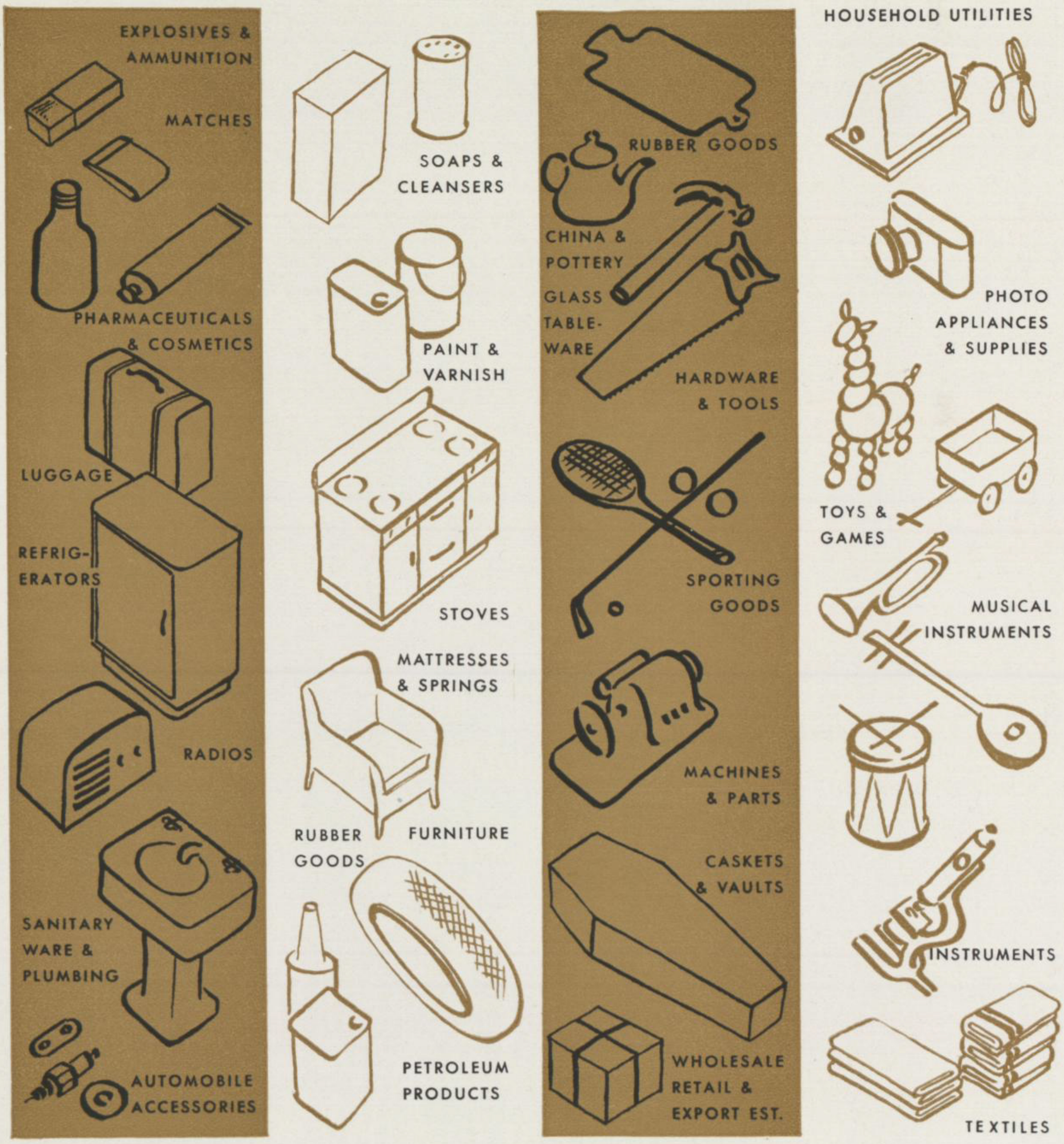


SALES

The above chart gives some idea of the wide scope of products packaged and the industries served by Container Corporation of America.

The consolidated net sales for the year of $22,525,268 were 12 per cent greater in dollars and 15 per cent greater in unit volume than a year ago. There were price increases throughout every department during the last half of the year. These were largely necessitated by increased costs of raw materials, operating supplies and labor.

Your Corporation continues to serve approximately 8,000 active customers. Its total sales force consists of 84 sales representatives in addition to sales managers and sales



service personnel. The sales department was successful in developing a large number of new outlets for its products; there were approximately 1,500 new customers added during the year and a large number of new products designed for old and new customers.

AFFILIATED COMPANY

In the first full year of operations controlled by your Company, the Sefton Fibre Can Company, headquartered at St. Louis, had a profitable year. Your Company's share amounting to $12,792 of its earnings of $26,605 for the twelve month period is not included in the Corporation's profit and loss as the Fibre Can Company has outstanding preferred stock, none of which is owned by your Company, and also approximately

Festoon dryer in the Wabash Coating Mill. Rolls of uncoated board are run through a coating machine where a wet coating solution is applied. The sheet is then picked up by sections of the dryer, carried to one end of a long heated chamber and back again. When the board reaches the dry end of the conveyor, it is rerolled and is then ready for recalendering and finishing.

20 per cent of its common stock is held outside of your Corporation. The Can Company made four quarterly preferred dividend payments throughout the year but did not declare any dividends on the common stock.

SUBSIDIARIES

The Pioneer Paper Stock Company and Chicago Mill Paper Stock Company each again had a satisfactory year in its business of collecting, cleaning, sorting and shipping waste paper, as also in the production and sales of various paper specialties.

EARNING AND DIVIDEND OUTLOOK

A quarterly dividend of 30c per share was paid on February 20, 1937 to stockholders of record February 5th, 1937.

During the first ten weeks of the new year, your Corporation has enjoyed good volume. There have been further substantial price increases; on the other hand, there have also been some very sharp cost increases. Unfortunately, the Cincinnati Plant sustained a shutdown from January 21st to February 9th because of the Ohio River floods. There was a loss of potential profit during the shutdown period; also a loss of some inventory and extra expenses incurred for clean up and rehabilitation work after the waters had receded. Profit for the first quarter will be very much larger than for the same period a year ago when earnings were unusually small. The immediate outlook for both volume and profit is encouraging.

Future dividend policy will naturally depend upon rate of earnings and available cash. Higher costs and larger volume tie up more working capital and suggest the retention of a substantial part of earnings to finance this volume. On the other hand, the surtax on undistributed profits penalizes the retention of earnings for working capital and indicates more liberal dividend policies. Your Board of Directors will give due consideration to both problems.

ORGANIZATION

There were no major organization changes during the year.

Again your directors and officers wish to express their appreciation for the conscientious efforts of the employees in behalf of the Corporation.

For the Board of Directors,

Respectfully,

Walter P. Paepcke, President

CONTAINER CORPORATION OF AMERICA

CONSOLIDATED BALANCE SHEET

ASSETS

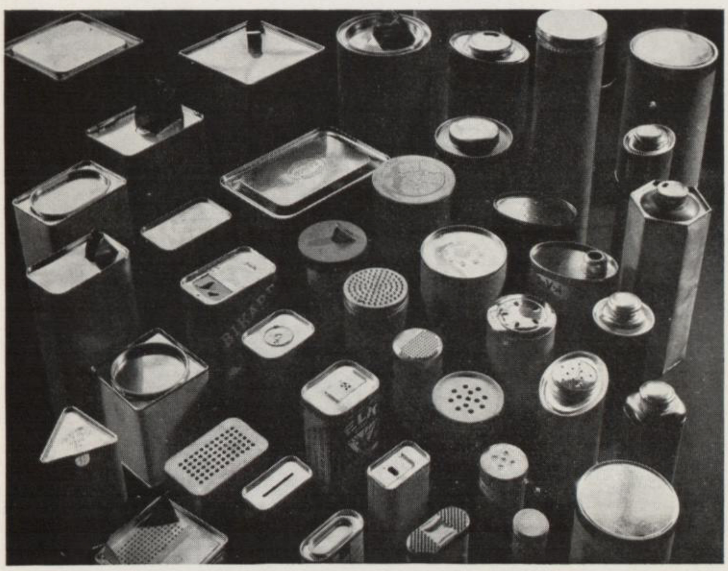
Current Assets:			
Cash in banks and on hand		$ 1,147,361.58	
Customers' notes and accounts receivable—			
Notes	$ 50,364.92		
Accounts	1,695,227.85		
	$ 1,745,592.77		
Less—Reserve for doubtful accounts and allowances	130,859.67	1,614,733.10	
Sundry current receivables		10,898.12	
Inventories of raw materials, work in process, finished goods and supplies; quantities and condition determined by employees of the companies; priced at the lower of cost or market		2,900,738.67	
Total current assets			$ 5,673,731.47
Other Receivables and Investments—at cost			149,754.17
Plant and Equipment—stated at amounts recorded at dates of acquisition (including acquisitions for stock) based, in part, on appraisals, plus additions since at cost, less reserve for depreciation:			
Land		$ 3,237,069.14	
Buildings, including leasehold improvements	$ 8,174,483.07		
Machinery and equipment	13,374,323.29		
Furniture and fixtures	56,748.89		
	$21,605,555.25		
Less—Reserve for depreciation	7,738,397.02	13,867,158.23	
Construction in progress (including new plant construction by subsidiary company of $66,144.20*)		266,454.20	17,370,681.57
Deferred Charges to Future Operations:			
Unamortized debt discount and expense		$ 273,855.05	
Prepaid insurance		128,468.67	
Other prepaid expenses, etc		36,323.05	438,646.77
Goodwill and Patents—at nominal value			1.00
			$23,632,814.98

*Additional contracts and purchase agreements in connection with this new plant aggregating approximately $540,000 were executed in January, 1937. It is estimated by the management that total expenditures on this plant will amount to approximately $2,500,000.

LIABILITIES

Current Liabilities:		
Accounts payable (including construction contracts payable of $212,310.00)	$ 1,305,003.05	
Accrued interest, wages, taxes, etc.	415,635.45	
Provision for 1936 Federal income taxes and surtaxes (subject to final determination by Treasury Department)	255,000.00	
Sinking-fund payments due in 1937	154,000.00	
Total current liabilities		$ 2,129,638.50
Funded Debt—less sinking-fund payments due in 1937 shown above, and bonds held in treasury (see accompanying summary):		
First-mortgage sinking-fund 6% bonds due June 15, 1946	$ 2,880,500.00	
Fifteen-year 5% debentures due June 1, 1943	4,100,000.00	6,980,500.00
Reserve for Contingencies, of which $288,355.30 was provided by a charge to capital surplus		434,114.71
Contingent Liabilities Reported:		
Federal income-tax returns from 1926 to date are in dispute. The amount of additional taxes and interest which may be payable is not determinable but is estimated to be not in excess of the reserve for contingencies.		
Capital Stock and Surplus:		
Capital stock—		
Authorized, 1,000,000 shares of $20-par value		
Outstanding 653,540 shares	$13,070,800.00	
Earned surplus (see accompanying summary)	1,017,761.77	14,088,561.77
		$23,632,814.98

SEFTON FIBRE CAN COMPANY, ST. LOUIS, MO.



Main entrance to the Sefton Fibre Can Company, St. Louis, Missouri, an affiliate of Container Corporation of America.

Paperboard cans made at the plant with metal or fibre ends suited to the packing of a large variety of manufactured goods such as cosmetics, automobile accessories, cleansers, talcs, spices, coffee and many other food products.

CONTAINER CORPORATION OF AMERICA AND SUBSIDIARY COMPANIES

SUMMARY OF CONSOLIDATED PROFIT-AND-LOSS AND EARNED-SURPLUS ACCOUNTS FOR THE YEAR ENDED DECEMBER 31, 1936

CONSOLIDATED PROFIT-AND-LOSS ACCOUNT

Consolidated Net Sales (including brokerage sales of subsidiary)			$22,525,268.45
Cost of Sales (exclusive of depreciation)......................			17,466,001.28
Gross profit (exclusive of depreciation)................			$ 5,059,267.17
Selling, Administrative and General Expenses (exclusive of depreciation and bad debts)................................			1,791,598.81
Net profit from operations (exclusive of depreciation and bad debts)...................................			$ 3,267,668.36
Deduct:			
Rental expense, etc....................................		$ 114,921.56	
Loss on capital assets retired.............................		86,700.72	
Provision for bad debts, less recoveries.....................		9,742.44	
		$ 211,364.72	
Less—			
Purchase discounts, interest earned, etc....	$ 92,719.10		
Rental income.........................	29,591.86	122,310.96	89,053.76
Net profit before depreciation, interest and Federal taxes.................			$ 3,178,614.60
Interest Charges, Etc.:			
Interest on first-mortgage bonds............		$ 194,957.94	
Interest on debentures.....................		211,771.71	
Other interest, etc.......................		14,439.75	
Provision for Federal income taxes—			
Normal taxes.........................	$ 230,500.00		
Surtax on undistributed profits (Note 1)...	24,500.00	255,000.00	676,169.40
Net profit before depreciation and amortization....................			$ 2,502,445.20
Depreciation and Amortization:			
Provision for depreciation.................		$ 1,172,734.24	
Amortization of bond discount and expense..		42,769.23	1,215,503.47
Net profit carried to earned surplus....			$ 1,286,941.73

CONSOLIDATED EARNED-SURPLUS ACCOUNT

Balance at December 31, 1935............................	$ 547,745.04	
Net Profit for Year, as above...........................	1,286,941.73	$ 1,834,686.77
Deduct—Cash dividends paid............................		816,925.00
Balance at December 31, 1936 (Note 2)..............		$ 1,017,761.77

NOTES:

(1) In the opinion of counsel for the companies, sinking-fund payments on the first-mortgage bonds are deductible in the computation of surtax on undistributed profits; the foregoing provision has been determined on this basis.

(2) According to restrictions in the 5% debenture-trust agreement, surplus of subsidiaries as at January 1, 1928 amounting to $367,184.86 is not available for cash dividends.

Some of the attractive solid fibre beer cases manufactured by the Company for this new and expanding market.

STATEMENT OF FUNDED DEBT—DECEMBER 31, 1936

PARTICULARS	First-Mortgage Sinking-Fund 6% Bonds Due June 15, 1946 (Note 1)	Fifteen-Year 5% Debentures Due June 1, 1943 (Note 2)	Total
Authorized	$10,000,000.00	$ 6,000,000.00	$16,000,000.00
Less—Unissued	5,000,000.00	—	5,000,000.00
Issued	$ 5,000,000.00	$ 6,000,000.00	$11,000,000.00
Deduct:			
Redeemed	$ 1,869,500.00	$ 1,700,000.00	$ 3,569,500.00
In treasury for 1937 sinking-fund requirement	96,000.00	200,000.00	296,000.00
	$ 1,965,500.00	$ 1,900,000.00	$ 3,865,500.00
Balance December 31, 1936	$ 3,034,500.00	$ 4,100,000.00	$ 7,134,500.00
Deduct—Sinking-fund payment due in 1937 in excess of treasury bonds available; included in current liabilities	154,000.00	—	154,000.00
Balance payable subsequent to December 31, 1937	$ 2,880,500.00	$ 4,100,000.00	$ 6,980,500.00

NOTES:

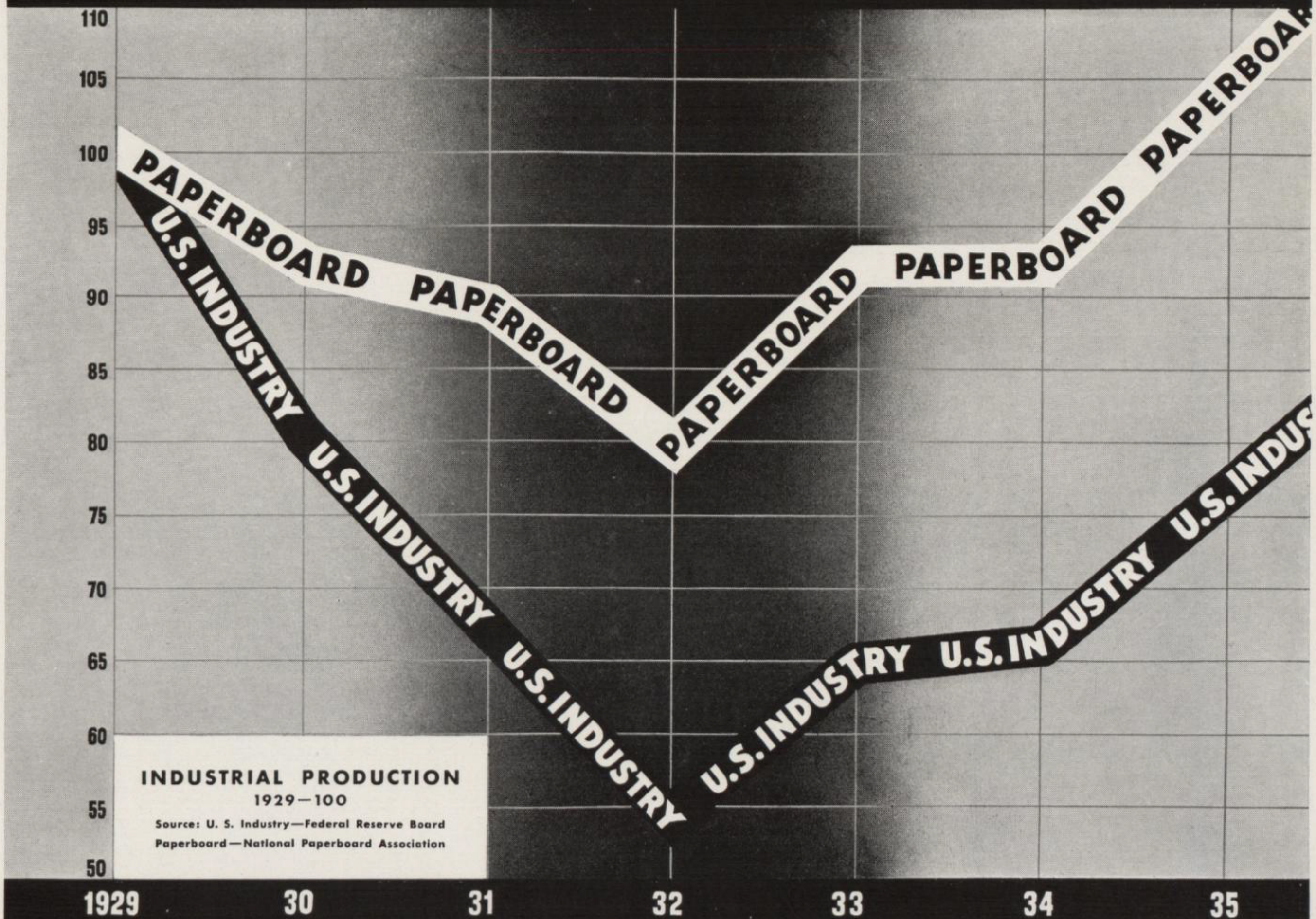
(1) The trust indenture requires semiannual sinking-fund payments of $62,500.00 (or a deposit of an equivalent principal amount of bonds) and in addition, annually on May 1, an amount equivalent to 20% of the net profits for the preceding year; such additional amount not to exceed $125,000.00. Under these terms, a sinking-fund payment of $250,000.00 must be met in 1937.

(2) The trust indenture requires semiannual sinking-fund payments of $100,000.00 or deposit of an equivalent principal amount of debentures.

(3) The entire capital stock, except directors' shares, of Chicago Mill Paper Stock Company, a subsidiary, is pledged with the trustees for the first-mortgage bonds.

THE INDUSTRY WHOSE VOLUME SHORT-CUT

THE DEPRESSION



Short-cut through the depression—quick recovery to a new high—the PAPERBOARD industry, through the manufacture of better goods at lower prices, produced a packaging revolution that put most U. S. goods in Paperboard. PAPERBOARD industry volume in 1936 is now running 17% ahead of 1929, and prices are at 75% of 1929.

CONTAINER CORPORATION OF AMERICA

WORLD'S LARGEST PRODUCER OF PAPERBOARD

One of a series of advertisements that appeared monthly in Fortune during 1936.

ARTHUR ANDERSEN & CO.
ACCOUNTANTS AND AUDITORS

135 SOUTH LA SALLE STREET
CHICAGO

To the Board of Directors,
Container Corporation of America:

We have made an examination of the consolidated balance sheet of CONTAINER CORPORATION OF AMERICA AND SUBSIDIARY COMPANIES as at December 31, 1936 and of the statements of consolidated profit and loss and surplus for the year ended that date. In connection therewith, we examined or tested accounting records of the companies and other supporting evidence and obtained information and explanations from officers and employees of the companies; we also made a general review of the accounting methods and of the operating and income accounts for the year; we did not make a detailed audit of the transactions.

In our opinion, based upon such examination, the accompanying consolidated balance sheet and related statements of consolidated profit and loss and surplus fairly present, in accordance with accepted principles of accounting consistently maintained by the companies during the year under review, the financial position of the companies at December 31, 1936 and the results of their operations for the year ended that date.

Arthur Andersen & Co.

Chicago, Illinois,
February 10, 1937.

The Lakeside Press
R. R. DONNELLEY & SONS COMPANY
CHICAGO